Monday, May 10, 2010 | Live updates plus informed analysis telegraph.co.uk/finance

Business

Waking moment Travelodge chief's challenge Monday Interview B5

Harrods upgrade New owners want to export the brand B8

BP chief 'judged personally' as cap fails to stop oil leak

By Rowena Mason and Nick Allen in Los Angeles

TONY Hayward, the chief executive of BP, has admitted he will be "judged personally" on the quality of the company's clean-up in the Gulf of Mexico, amid reports that faulty cementing may have been to blame for the massive oil leak.

Robert Bea, a University of California Berkeley engineering expert, who has seen transcripts of witness accounts believes that methane gas cracked cement that had recently sealed BP's oil well. He said that additional costly testing was not done to ensure the strength of the cement.

Questions remain about why the rig's safety valve – its blowout preventer – did not activate after pressure built up, causing the explosion more than two weeks ago that killed 11 men. BP has been desperately trying to contain a resulting spillage the size of Luxembourg, but yesterday it admitted that efforts to put a giant cap over the leak had faltered.

Ice-like crystals clogged the top when it was over the leak in the deep water and engineers must now wait before trying again.

Political pressure is mounting on BP as the leak continues to gush 5,000 barrels of oil per day into the ocean. Ken Salazar, US Interior Secretary, accused the British oil giant of "major mistakes", adding that "its life is very much on the line here".

Mr Hayward hit back at claims the company's reputation will be forever tarnished, saying it will "emerge stronger".

"For sure we will fix it, it's simply a matter of time," he said. "Clearly, the sooner the better. But we will fix it, that's certain. We will be judged – I will be judged personally – by the quality of the response. It's inevitable."

Nobuo Tanaka, president of the International Energy Agency, said yesterday he fears the spill may lead to tighter rules on offshore exploration, while global energy demand continues to grow rapidly.

"The future potential is offshore in deep water and in the Arctic, so if offshore investment is going to be slowed down, that is a concern," he said. "We have to learn from the accident. We need good supply from offshore in the future."

Despite the US administration's threat to keep its "boot on the throat of BP" and its decision to halt new drilling, the oil company's chief executive said he had not

Continued on B2

Political deadlock spurs fear of sell-off

By Roland Gribben

TRADERS are braced for a sterling sell-off on London markets today after the failure of Conservatives and Liberal Democrats to finalise a deal to form a coalition government.

Analysts hoped that EU moves to agree a €500bn-plus (£430bn-plus) emergency funding package for vulnerable eurozone economies, including Greece, would cushion fears over policy drift in a hung parliament.

The EU deal was agreed last night hours after finance ministers declared war on the "wolf pack" behaviour of financial markets attacking the euro.

Analysts and business leaders warned that time is fast running out to provide reassurance that a new administration is ready to tackle Britain's £163bn budget deficit and fill the political vacuum.

Howard Archer, chief UK and European economist at IHS Global Insight, said failure to produce a formal agreement would leave sterling, the FTSE and gilts "vulnerable to a major sell-off" today.

He acknowledged the mood would be influenced by the EU manoeuvres and whether markets perceived that the current political "horse-trading" in the UK produced a government "that will be able to survive for a decent amount of time and deliver meaningful action on reining in the UK budget deficit".

Paul Kavanagh, a partner at stockbrokers Killik & Co, said: "Everything is still nervous and volatile but I would have thought the situation in Europe is going to weigh more heavily than the talks on coalition government.

"The markets are saying Europe has had a long time to sort this out and you've got to give us something constructive and tangible."

The FTSE 100 slumped 4pc at one stage on Friday before finishing 137.97 points down at 5,123.02 in the immediate aftermath of the election outcome.

Sterling lost more ground against the dollar and the euro but Stephen Hughes, director of Foreign Currency Direct, sees the pound strengthening against the euro on the back of the EU deal and reaching €1.20 by the end of the month.

David Frost, director general of the British Chambers of Commerce, said: "Our members are telling us they want an early resolution and clear leadership and who is going to occupy No 10 and No 11. But we don't want something cobbled together that will fall apart in a few weeks' time."

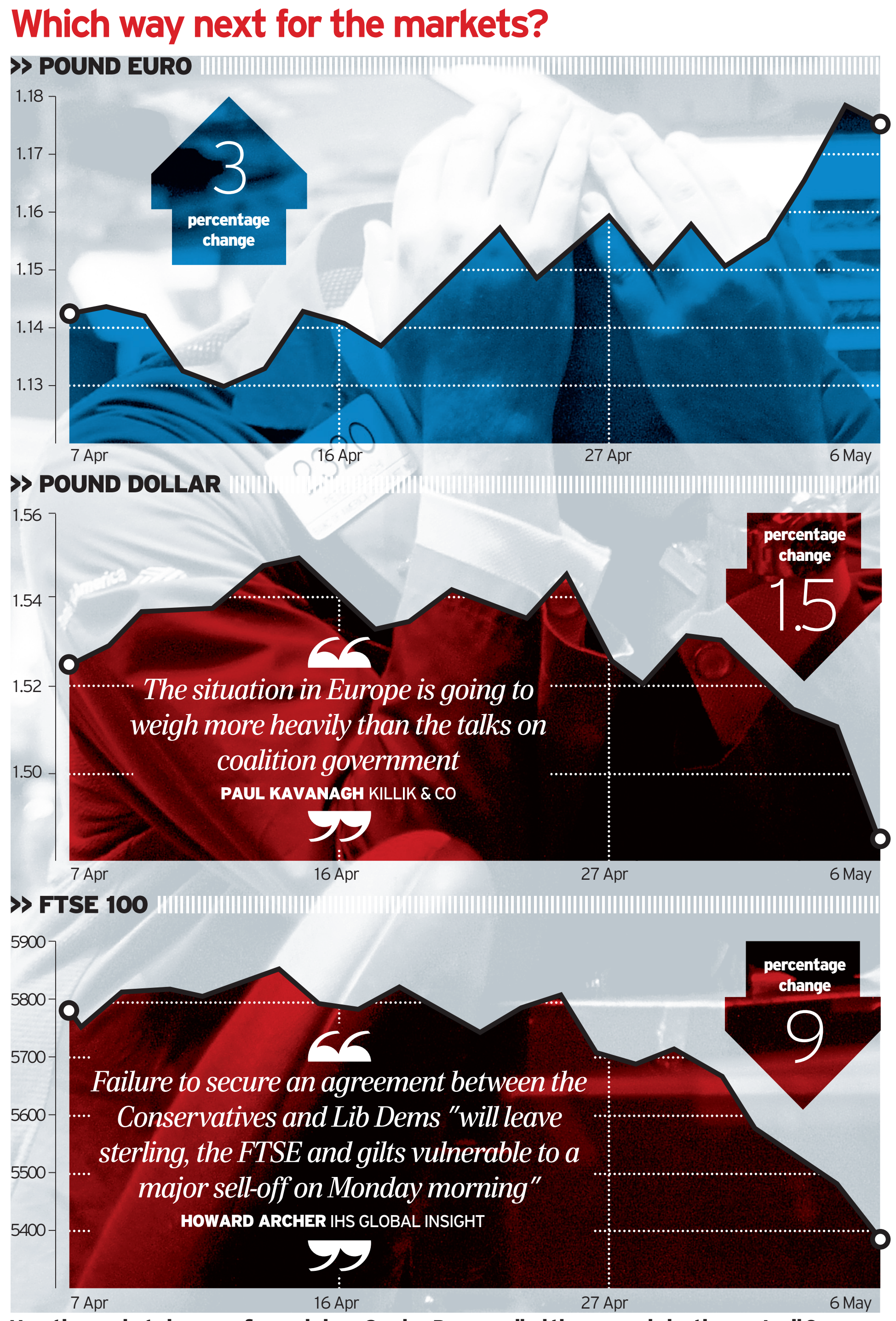
Richard Lambert, CBI director general, was more relaxed about the coalition timetable. "We have been in a period of political uncertainty for some weeks and another day or two may not make a difference but the longer the uncertainty is extended the greater the risk of consequences in financial markets," he said.

INSIDE

ONLINE

Will the pound tumble today? Live analysis at telegraph.co.uk/finance

Which way next for the markets?



How the markets have performed since Gordon Brown called the general election on April 6

Darling agrees to give £13bn to Europe bail-out

By Bruno Waterfield in Brussels and Rowena Mason

ALISTAIR Darling has caved into a demand that British taxpayers underwrite at least £13bn of debt held by other European governments, amid fears that the Greek debt crisis could spread.

The deal is aimed at calming global stock markets by reassuring traders that there are measures to stop any contagion caused by Greece from spreading to other nations such as Spain and Portugal.

The Chancellor, acting for the UK until a government is formed, agreed last night to participate in a €110bn (£95bn) "stabilisation mechanism" designed by finance ministers.

The measures, rushed through over the weekend to be ready when markets open, present an immediate crisis for a Conservative-led government. The bail-out mechanism has increased British liabilities at a time when David Cameron is seeking to push down public spending and exposure to risk.

According to Conservative sources, George Osborne, the man most likely to be the next Chancellor, has "reservations" over an unpopular decision that is likely to be Labour's last act in government.

But Mr Darling had no choice but to surrender to the demand because it was taken under the Lisbon Treaty's "exceptional occurrences" clause that stripped Britain of its national veto. Britain last night succeeded in staying out of European proposals for a bigger fund to bail out debt-laden nations on the Continent.

Under proposals tabled late last night, eurozone countries will make loan guarantees worth £382 billion (€440bn) into a fund that will be topped by contributions from the International Monetary Fund.

Both funds will help eurozone countries get cheap loans, if they have problems servicing their debts on the commercial markets.

The developments came as the IMF, the world's lender of last resort, agreed to hand over its €30bn tranche of bail-out money for Greece. It is part of a wider €110bn package over three years put up by the European Union. Around €5.5bn is available for the indebted nation to draw on immediately.

Ambrose Evans-Pritchard: B4

Prudential deal with regulator over AIA on knife-edge

By Rowena Mason

PRUDENTIAL was close to securing regulatory approval for its £24bn acquisition of Asian insurer AIA last night but was facing a growing investor rebellion against the deal.

Sources said it was too close to call whether the Financial Services Authority (FSA) and the London-listed insurance group would reach an agreement, after the regulator raised concerns about its capital reserves last week. Although the deal appeared on the brink of failure over the weekend, it could be saved if Prudential agrees to put up a ring-fenced £1bn fund to allay the FSA's worries.

Even if approval is given, investors are still threatening to pull support for the insurer's proposed £14bn rights issue to fund the deal and could demand a cut in the price. If successful, it would be one of the biggest cash calls in corporate history but it has more than regulatory hurdles to clear.

Four leading investors told *The Sunday Telegraph* that they expect the rights issue to fail.

Robin Geffen, founder and managing director of Neptune Investment Management, which holds $50m of shares, is trying to win support for a resolution calling for Prudential's chief executive, Tidjane Thiam, to resign, saying his move has "not been transformational but disastrous".

The launch of the rights issue prospectus was delayed after the FSA called a halt to the sale process on Tuesday.

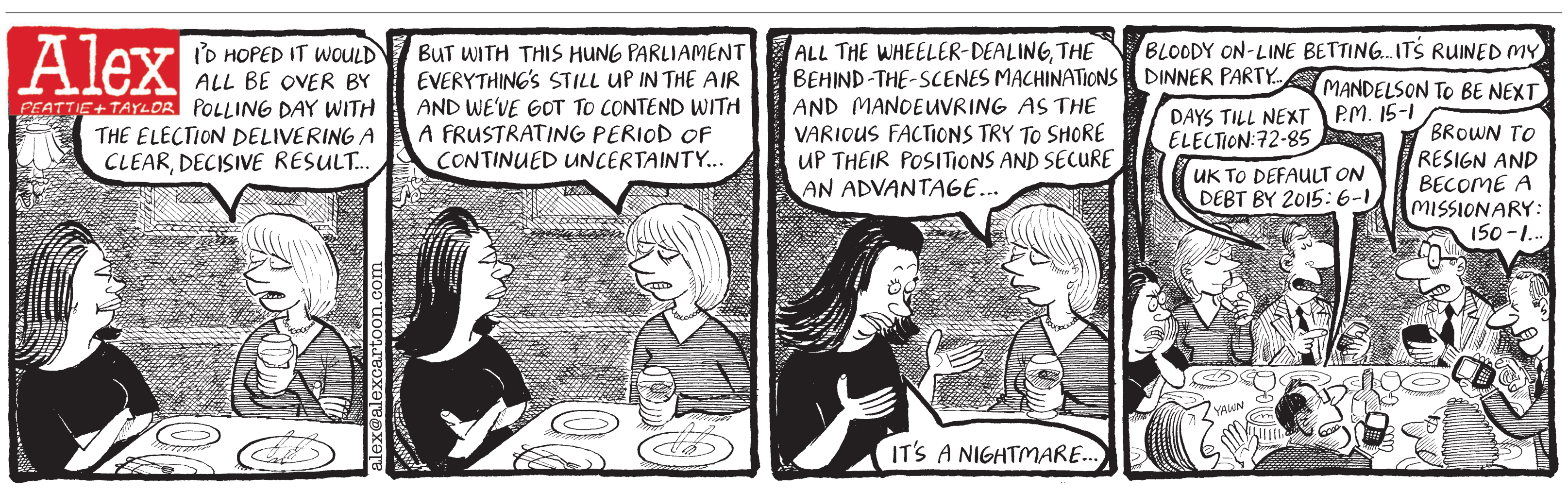
Since then, Mr Thiam has been locked in negotiations with the regulator.

Although Prudential has £3.4bn of surplus capital and AIA has £2.2bn, the FSA wants assurances that the money in Asian countries would not be seized by local regulators in the event of a crisis.

A company spokesman declined to comment.

£1bn

The size of the ring-fenced fund the FSA wants Prudential to put up to allay seizure worries



HSBC | BUSINESS **THINKING**

Rewarding business ingenuity. Enter now at **www.hsbc.co.uk/businessthinking**

THE WEEK STARTS HERE

MARKET OVERVIEW

FTSE 100 LAST WEEK

5123.02
-430.27 -7.74pc

2010 High	5260.99	
2010 Low	5060.92	
Yield	3.67pc	+0.10
P/E ratio	13.71	-0.40

The FTSE fell sharply over fears about a hung parliament and Europe's debt crisis.

BIGGEST RISER
RANDGOLD
5635p
+50p (1pc)

BIGGEST FALLER
LLOYDS BANKING GP
53 1/2p
-12 3/4p (19pc)

DOW JONES LAST WEEK

10380.61
-628.18 -5.70pc

The Dow closed down amid confusion about a 1,000 point plunge and recovery on Thursday.

LAST WEEK IN THE OTHER MARKETS

FTSE 250	9491.89	-874.11
FTSE All-share	2640.23	-223.12
Yield	3.41	+0.17
FTSE Eurotop 100	2041.14	-194.92
Nikkei	10364.59	-692.81
DJ Eurostox50	2500.18	-316.68
S&P 500	1110.88	-75.81
Nasdaq	2265.64	-195.55

COMMODITIES
WEEK-ON-WEEK CHANGE

GOLD
$1203 (£818)
+22.50 +1.90pc

BRENT CRUDE
$78.27 June
-9.17 -10.48pc

FULL LISTING **B3** >>

CURRENCIES
FRIDAY CLOSE

£ €
RATE 1.1605
CHANGE -1.75c

£ $
RATE 1.4682
CHANGE -2.90c

FULL LISTING **B5** >>

Independent 1 | Experienced 2 | Responsive 3

Qualities that have stood the test of time

The fact that Close Brothers enjoys a long-standing reputation as one of the City's most respected financial institutions is no accident.

It's a testament to our commitment to the qualities on which we were founded.

Rather than simply following the pack, we believe in independence of mind, combined with a prudent approach to banking.

We prefer to make business decisions based on the needs of clients, whether that involves Banking, Asset Management or Securities. Thanks to our extensive experience, diverse skill-set and active approach to investment*, we're able to retain a solid capital base and strong liquidity – even in the toughest of economic climates.

All of which we believe helps to make us one of the most trusted and dependable financial institutions in the UK today.

There when it matters

Close Brothers

Banking | Asset Management | Securities

Discover the qualities that define our business at **www.closebrothers.co.uk/qualities**

* Investments may not be suitable for all individuals and you may lose some or all of the value of your investment.

Approved for issue by Close Brothers Limited (a subsidiary of Close Brothers Group plc) Registered office 10 Crown Place, London, EC2A 4FT. Registered in England and Wales Company No. 195626. Close Brothers Limited is authorised and regulated by the Financial Services Authority No. 124750. To register for more details visit www.fsa.gov.uk. The services referred to above are offered by respective Financial Services Authority regulated subsidiaries of Close Brothers Group plc.